ANNUAL REPORT/1981

CANRON INC.

Contents

Highlights

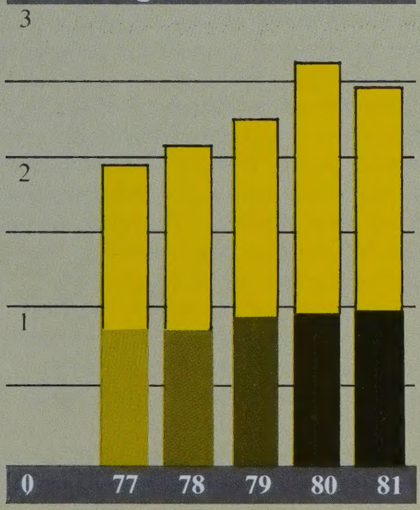
(in millions of dollars — except per share amounts)

	1981	1980	Increase (Decrease)
Sales by quarter			
First	**104.4**	92.8	12.5%
Second	**134.1**	125.1	7.2%
Third	**147.7**	116.0	27.3%
Fourth	**156.8**	155.8	0.6%
Full year	**543.0**	489.7	10.9%
Earnings (before extraordinary) by quarter			
First	**1.3**	2.2	(40.9%)
Second	**4.6**	3.4	35.3%
Third	**2.4**	1.6	50.0%
Fourth	**6.8**	8.1	(16.0%)
Full year	**15.1**	15.3	(1.3%)
% of Sales	**2.8%**	3.1%	(0.3)
Order backlog at year-end	**222.4**	253.5	(12.3%)
Working capital	**102.2**	92.7	10.2%
Capital expenditures	**14.2**	9.2	54.3%
Per common share			
Basic earnings (before extraordinary) by quarter			
First	**0.15**	0.33	(54.5%)
Second	**0.77**	0.58	32.8%
Third	**0.37**	0.24	54.2%
Fourth	**1.19**	1.46	(18.5%)
Full year	**2.48**	2.61	(5.0%)
Dividends paid	**0.94**	0.92	2.2%
Book value	**20.36**	18.96	7.4%

Common share market information by quarter

					Dividends paid	
1981	High	Low	Close	Shares traded	A shares cash	B shares stock
First	18½	16⅜	17¾	448,029	0.23	0.01489
Second	20¼	16¼	19¾	379,226	0.23	0.01350
Third	20	15½	15½	271,170	0.23	0.01300
Fourth	16⅞	14	14¾	245,575	0.25	0.01360
Full year	20¼	14	14¾	1,344,000	0.94	0.05499
1980	20½	12⅝	17⅞	2,022,230	0.92	0.06530

Earnings/Dividends



Earnings per share (Before extraordinary item)
Dividends per share (dollars)

The year 1981 was a challenging one for business in general, and as a manufacturer of industrial and construction products, Canron was not able to avoid the economic downturn which prevailed in most world markets during the last third of the year.

It is difficult to maintain industrial activity at a level which can produce satisfactory financial results in an economic environment of deliberate government actions to reduce an unacceptably high inflation rate through monetary policy and resultant unprecedented high interest rates. Despite excellent results in many of Canron's business units, the combined effects of inflation, high interest rates and the recession which followed, severely impacted earnings in the fourth quarter. Operating results are dealt with in more detail later on in the report.

Financial Results
Sales in 1981 were $543 million, an increase of $53 million, or 10.9 per cent over 1980 levels, while earnings before an extraordinary item were $15.1 million, down slightly from $15.3 million last year. On a per common share basis, earnings were $2.48 compared with $2.61. Last year we reported that earnings included a credit of $2.2 million, or 41¢ per share, resulting from an adjustment of income tax reserves established in prior years. In 1981 there was a similar credit of $3.0 million or 54¢ per share. These adjustments reflect the resolution of a long-standing United States tax dispute and other general tax contingencies, and essentially eliminate all major unresolved tax matters.

The quarterly dividend was raised from 23¢ per share to 25¢ per share effective with the fourth quarter payment.

Goals
In the previous report we discussed the completion of an objective in-depth evaluation of each of Canron's businesses. The purpose of the study was to aid in the development of a long-range strategy to ensure that corporate assets were deployed in areas which would maximize profitability, return on investment and ensure future growth. The Corporation must build on its strengths and eliminate weak areas. As a result the structural steel fabricating plant in Montreal was closed early in 1981. At the same time a decision was made to strengthen the construction services group of Western Bridge Division in Vancouver to take advantage of growth opportunities in western Canada and to build on the strong base already established by the division in its market area.

Canron recently concluded an agreement with Pipework Engineering (P.E.D.) Ltd., a subsidiary of British Steel Corporation, to form a joint venture, 51 per cent owned by Canron, which would provide pipework and mechanical services involving design, engineering, fabrication and installation for steam generation, industrial, petrochemical and mining processing plants in Canada, with special emphasis in the western regions. Substantial market growth for this venture is projected over the next several years. The operation will be based in Calgary.

Management efforts will continue to be focused on strategic operating objectives to expand and broaden Canron's capabilities while, at the same time, ensuring that more mature businesses are managed in a manner that will enable the Corporation to meet its financial objectives. Programs are aimed at:

- the strengthening and maintenance of core businesses;
- penetration of faster growing segments of existing markets and increased emphasis on new opportunities, including exports;
- the addition of new products in high growth areas through internal development and acquisitions;
- the achievement of acceptable minimum returns on investment consistent with the strategic role of each business;
- redeployment of assets where acceptable returns are not being achieved; care must be taken in such instances to avoid short-sighted decisions based on adverse economic cycles;
- returns of at least 15 per cent on net assets (capital employed) and 18 per cent on common shareholders' equity;
- the maintenance of a strong balance sheet in order to avoid financial pressures in periods of economic instability.

Directors and Management
In April, 1981, Howard J. Lang announced his retirement as Chairman of the Board of Directors. Mr. Lang joined Canron in 1960 as President and Chief Executive Officer. He became Chairman in 1967 and remained Chief Executive Officer until April, 1977. The Corporation is pleased that he remains a member of the Board and is Chairman of the Executive Committee.

The Board was saddened by the death on August 3, 1981, of John S. Dinnick, a Director since 1964 and a person whose wise counsel and enthusiasm is sincerely missed. To replace Mr. Dinnick, William A. Dimma, President of A.E. LePage Limited, Toronto, was elected a Director on January 27, 1982.

William J. Bennett, who has served on the Board at various Committees since 1967, will not stand for re-election at the forthcoming Annual Meeting, having reached the Corporation's retirement age for Directors. Mr. Bennett, who has had a distinguished career in government and industry and has vast knowledge of many areas of the Canadian scene, played an important role in the deliberations of the Board.

Frank E. Miller, for health reasons, retired as Vice-President Corporate Development, having served with Canron for 25 years in many positions, including Division General Manager and Group Vice-President.

In other executive changes, Roger J. Short joined Canron as Vice-President, Corporate Planning and Development, Stuart C.L. Eccles was made General Manager of Pipe Division and William C. Hamilton was appointed Assistant Vice-President, Management Information Resources. In addition, Carol E. Towner was appointed Corporate Controller early in 1982.

Outlook
In the current economic environment, achievement of the Corporation's financial objectives would appear difficult in the short term. Many uncertainties prevail and the basic problems of inflation and high interest rates will continue to dampen immediate prospects of a significant industrial recovery. However, corporations react to difficult times by stringent belt tightening, strong asset management and increased emphasis on productivity.

We believe that inflation is our worst enemy and must be reduced. Inflationary psychology must be defeated and expectations must be restrained until productivity provides the means to satisfy the various demands being placed on those who must supply the necessary resources.

We support government policies aimed at reducing inflation through monetary policy but urge that they intensify efforts to exercise greater fiscal restraint.

In 1982 Canron must negotiate 18 labor agreements covering about 3,450 employees. The present inflationary climate may

Clifford S. Malone, Chairman of the Board and Chief Executive Officer (seated) and William S. Cullens, President and Chief Operating Officer

pose difficulties but we trust that mutual understanding of present economic conditions will prevail and that satisfactory new pacts can be reached without disruptions in operations.

The Board appreciates the support of our 5,400 employees and is confident that their support will continue as the Corporation moves forward to reach its strategic goals and thus ensures a strong future for all – employees, suppliers, customers and shareholders.

Signed on behalf of the Board,

C.S. Malone,
Chairman of the Board and
Chief Executive Officer

Toronto, March 3, 1982

OPERATING SUMMARY

The operating plan for 1981 contemplated substantial gains in sales and profits. The 1981 business outlook in late 1980 when the plan was set suggested reasonable strengths for the capital goods sectors in which Canron operates. A further reason for optimism was the fact that labor bargaining in 1981 would be far less onerous than 1980 when numerous strikes caused significant losses.

At the end of the third quarter of 1981 operating results were ahead of both plan and the 1980 period. However, signs of a serious downturn in general market conditions and difficulties in the key railway equipment businesses began to appear in the third quarter of the year. Also, continuation of the strike at a major Canadian steel mill customer added to the uncertainties for the balance of the year.

Market conditions deteriorated very rapidly as evidenced by the virtual collapse of housing starts, domestic automobile sales and railway freight car loadings in North America, and increasing unemployment in North America and Europe. Coupled with these general conditions were specific problems affecting individual operations. Delays and cancellation of anticipated orders, inventory write-offs and increased competition all had a major adverse effect on railway maintenance equipment operating results in the final quarter of the year. Continuation throughout the quarter of the major Canadian steel company strike was a serious negative factor.

Against these negative conditions there were several pluses. Results of the structural steel operations were favorable, reflecting good performance in contract management and more favorable market conditions which existed in prior years when the jobs were booked. Continuing success with large volume export shipments of iron water pressure pipe helped maintain a satisfactory cost base for this product.

There is little optimism in the present outlook for 1982. However, if market conditions do not deteriorate significantly from their present levels, operating results are likely to show at least a modest improvement over the previous year. Particular attention is being given to strengthening marketing activity, reducing costs and expenses and increasing the turnover rate of operating capital.

Construction industry union contracts in all provinces expire in 1982 and bargaining this year is expected to be difficult.

Further comments on each of the operating units are provided in the next section of the Annual Report.

Signed on behalf of the Board,

W.S. Cullens,
President and Chief Operating Officer

Toronto, March 3, 1982

Operations: Foundry

The gradual recovery in economic conditions which commenced in late 1980 collapsed by mid-1981 and plunged the North American foundry industry into a recession. This general situation, together with a five month strike at a major customer, had a serious impact on operating results. In spite of these conditions, sales and profits did show a satisfactory increase over 1980.

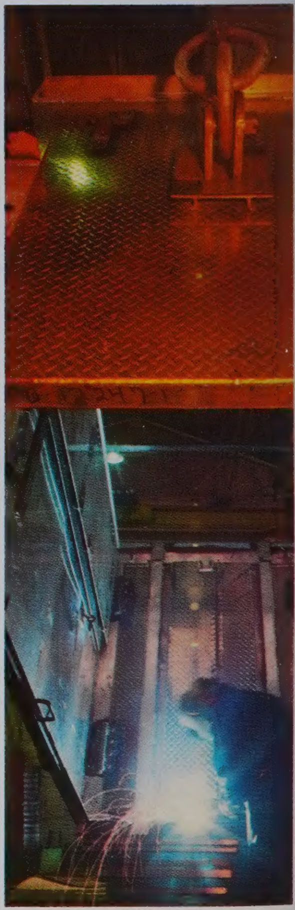
Product and market diversification programs started in prior years significantly reduced the impact of the adverse conditions. Large first time orders for mill liners and ingot mould castings were received from Mexico.

Expansion of the division's Wabi Iron Works foundry in New Liskeard, Ontario, began in the fourth quarter. This will enable the Wabi foundry to further enlarge and diversify its markets.

Product developments during the year included new materials to enhance performance of ingot moulds and wear resistant castings. These improved products are expected to receive wide acceptance in the steel mill, mining, cement and aggregate industries.

Foundry's business strategy calls for operating continuously at or near full capacity. Success with this strategy would help to maintain full employment. With the present unfavorable market conditions, major emphasis will continue to focus on lowest cost through improved productivity and product design.

If forecasts of an economic upturn in the second half of 1982 are correct, there will likely be improvements in the steel, mining, pulp and paper, agricultural and construction equipment industries. This would raise the prospects of higher profits in 1982 compared with 1981.

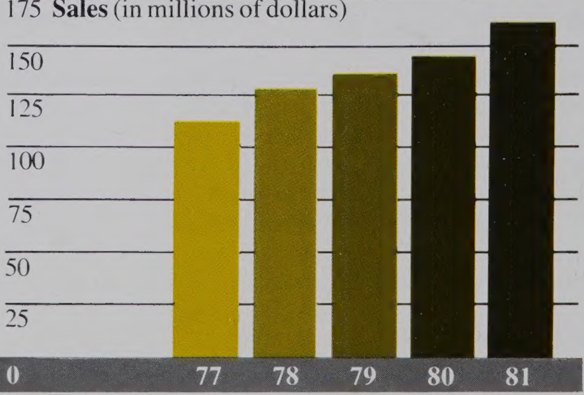


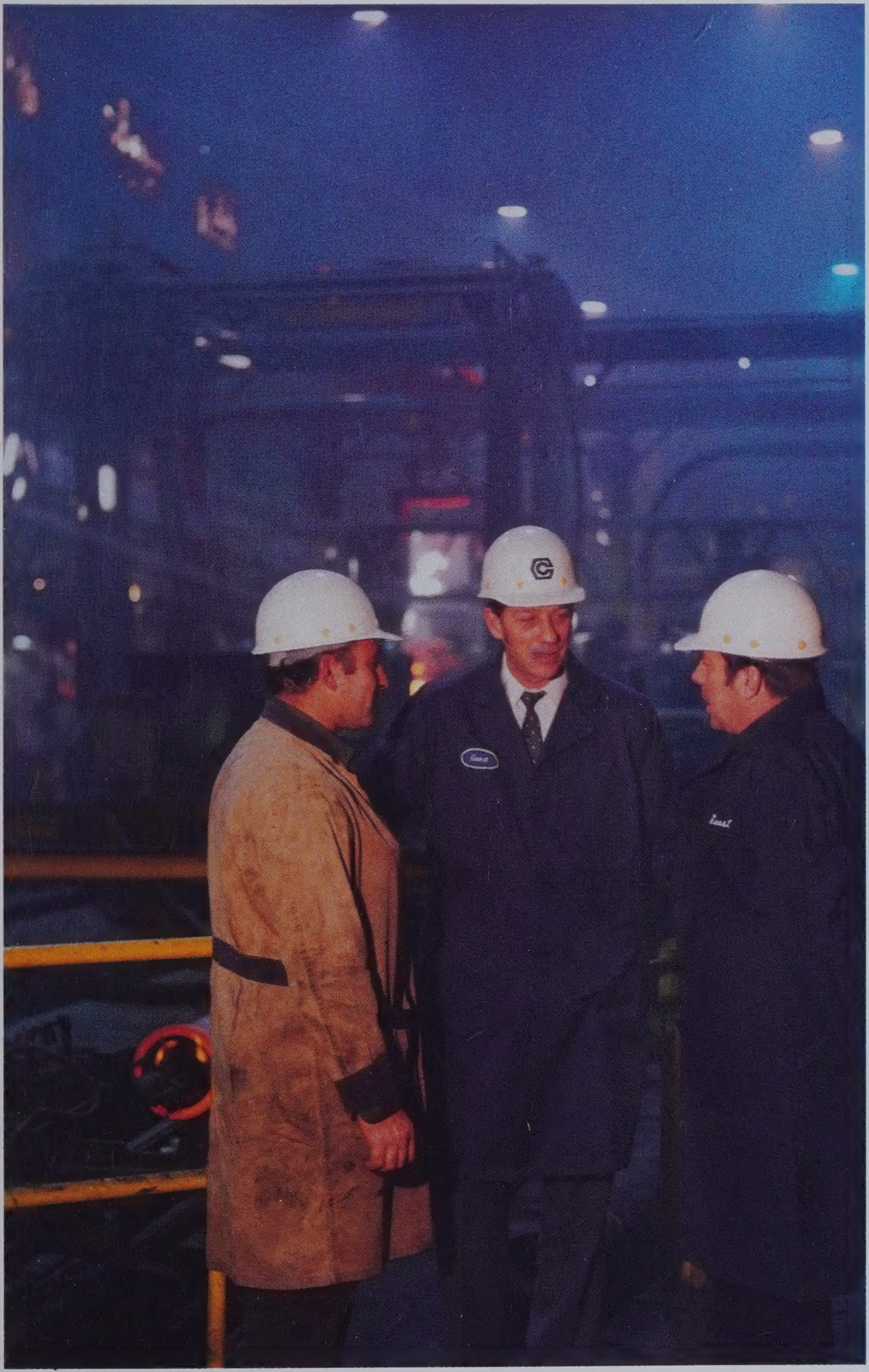
(Top) John M. Gandy, General Manager, Foundry, on the pouring floor of the division's Alloy foundry in Hamilton, Ontario.
(Below left) Ni-Hard mill liners cast by Foundry are used in rod and ball mills to grind ore to a fine powder.
(Below right) A mine cage (elevator cab) is welded in the equipment fabricating plant of Wabi in New Liskeard, Ontario.

Iron foundry

Foundry & Pipe Divisions

	1981	1980
Net sales	**169,742**	145,841
Operating profit	**15,798**	9,920
Identifiable assets	**84,290**	72,277
Capital expenditures	**3,435**	2,072
Depreciation	**3,318**	3,230





The forecast results for 1981 were achieved with sales and profits considerably higher than 1980.

Iron pipe sales increased significantly as a result of aggressive efforts to obtain export orders, particularly in Middle East countries. The increased level of business enabled all three iron pipe plants (Trois-Rivières, Quebec; Toronto, Ontario, and Calgary, Alberta) to operate at a high level of activity for most of the year. The Trois-Rivières plant moved up to a two-shift operation in February and continued for the balance of the year resulting in a more competitive product cost structure.

Concrete pipe sales were sluggish in the first quarter but more than recovered over the balance of the year. The generally high level of activity at all three concrete pipe plants (Anjou, Quebec; Toronto, and Cochrane, Alberta) contributed to the improved results.

Productivity at all locations rose during the year as a result of increased attention to process parameters, quality control and reducing scrap losses. All plants were upgraded with capital projects; $1.1 million was spent on the Calgary iron pipe plant to rebuild the cupola and install state-of-the-art metal treatment equipment.

Four of the plants improved their accident frequency rates by 50 per cent or more. New collective agreements were negotiated successfully at Calgary, Anjou, and Rexdale, Ontario, and labor/management relations improved significantly at Trois-Rivières following the long strike in 1980.

Sales and profits are expected to improve in 1982 over 1981. However, of major importance will be the ability to remain competitive in export markets by maintaining or improving productivity. Continuation of the favorable relationship of the Canadian dollar to most European currencies is also critical to success in export markets.

(Top) Stuart Eccles, General Manager, Pipe, discussing production with staff of the Cherry Street ductile iron plant in Toronto, Ontario.
(Below) Hyprescon reinforced concrete water pressure pipe must be manufactured to specially engineered configurations to suit each project, as these Montreal area water filtration and pumping plant installations attest.

Sales and market share continued to grow during 1981 in spite of depressed economies in many of the division's market areas. These gains were made at the expense of operating results which were not satisfactory and lagged considerably from the previous year.

Production volume reached a record high level in 1981. However, the timing of sales orders throughout the year was erratic, causing problems. At times it was necessary to cut back on the number of temporary employees and later rehire even larger numbers to meet the bulge in production requirements. These swings added substantial costs to 1981 production.

Included in major contracts for 1981 was the sale of equipment to Iraq. This is part of a long-term project to provide administrative, technical and logistical assistance to develop an infrastructure for railway track maintenance within Iraq.

A special event in 1981 was the permanent-way technical exhibition in Frankfurt, West Germany. The display of Matisa's new generation of ballast cleaners, track renewal and track laying trains, ballast regulators and tampers met with considerable interest. Most of the division's equipment at the exhibition was pre-sold and scheduled for immediate delivery to customers. The new Matisa designed board-computer for tampers demonstrated state-of-the-art product modernization and was the object of considerable interest and numerous enquiries.

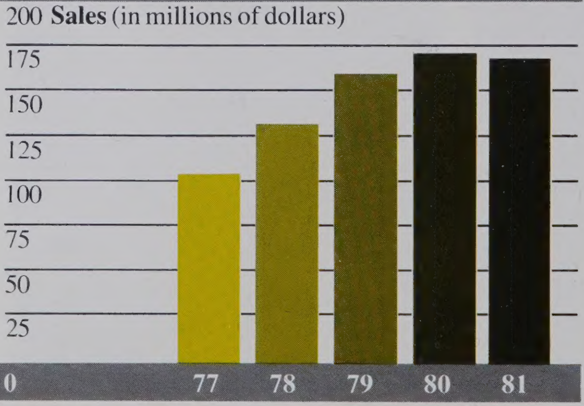
Track renewal trains were delivered to Italy, Denmark and Spain and an order was received from Belgium. The first unit of the new high performance ballast cleaner was delivered to Italy at the end of the year and orders have been booked in two other countries. The new generation of track analyzers was ordered by both the Swiss and West German railways.

In the face of a continuing and possibly deeper downturn in the world economies, efforts which will have long-term benefits are being stepped up in the areas of marketing, product development and improvement, as well as reduction of production costs. In these circumstances, 1982 is unlikely to be any better than 1981, but will represent continued progress for the longer term.

Machinery & equipment

Pacific, Mechanical Tamper & Matisa divisions

	1981	1980
Net sales	**171,915**	173,575
Operating profit	**5,459**	13,421
Identifiable assets	**127,985**	119,385
Capital expenditures	**4,911**	4,327
Depreciation	**3,303**	2,980



The 1981 results failed to meet earlier forecasts and sales and profits were lower than the previous year. The recession in the U.S. deepened as the year progressed and many railroads curtailed maintenance-of-way expenditures, particularly for spare parts.

Mergers amongst major railroads also resulted in deferment of equipment purchases. These factors resulted in increased competition for available business. Results were also impacted by heavy launching costs for new models and inventory write-offs on discontinued equipment models.

Development activity in 1981 focused on improvement of existing key products. The work was directed toward providing state-of-the-art technology in all product categories. Cost reduction and quality assurance programs are ongoing.

The outlook for 1982 indicates a soft first half with conditions improving in the second half. Results are expected to be better than 1981 although still below the historical average.

Longer term, the outlook for the U.S. railway industry is favorable. Mergers in the U.S. combined with the new tax legislation are likely to make the railroads more efficient and profitable which will ensure a steadily growing market for Tamper products.

(Page 6,top) Ragnar Blomqwist, General Manager, Matisa and Corporate Group Vice-President, with partly assembled track maintenance machine in the Crisssier, Switzerland, plant.
(Page 6, far left) A scale model of Matisa's newest track renewal train, the P 811S on display at the 1981 Frankfurt, West Germany, permanent-way technical exhibition.
(Top) Arnold F. Bygate, General Manager, Tamper, inspecting a Mark III tamper being prepared for shipment from the West Columbia, South Carolina, plant.
(Left) Tamping machines and ballast equalizers for Canadian railways being assembled at Tamper's Toronto, Ontario, plant.

1981 was the first full year of operation following the major restructuring implemented last year to eliminate unprofitable product lines and put the primary focus on pulp and paper machinery. Results for 1981 were significantly better than the previous year giving an early credibility to the restructuring plan.

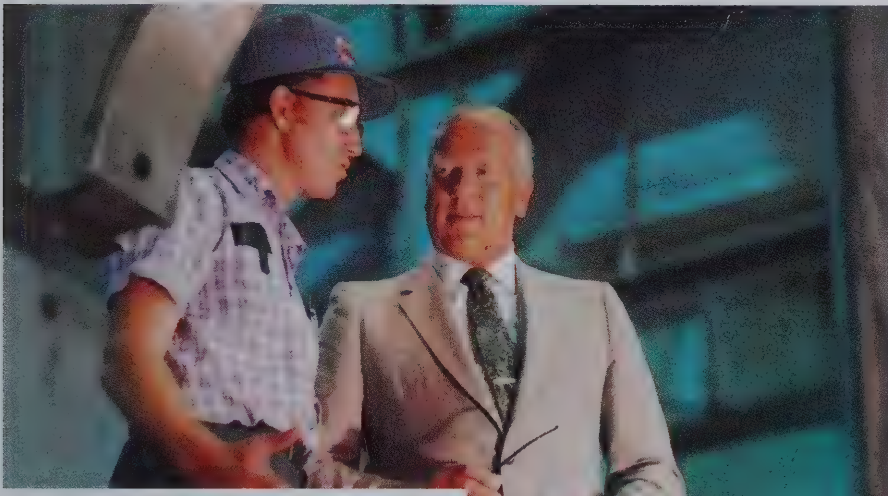
The labor relations climate in the plant has greatly improved since the five month strike last year.

The division secured an exclusive agreement with the Finnish machinery company TVW (Tampella-Valmet–Wartsila) for the manufacture, maintenance and repair service of their products in Canada and the northeast U.S.A. TVW is a world leader in the design and manufacture of papermaking machinery. The new agreement, together with Mechanical's long association with Kamyr, a premier designer of pulp equipment, provides an excellent base to service the forest products industry.

The supply of spare parts and components for steel rolling mill equipment continues to be an important part of Mechanical Division's business.

Prospects in 1982 for the forest products industry are somewhat pessimistic. As a consequence, sales and profits will likely be lower than 1981.

(Top) Jean-Marc Eloy, General Manager, Mechanical, compares notes with a machine shop foreman.
(Centre) The drums in these vacuum washing units of the bleach plant at a New Brunswick pulp mill were manufactured by Mechanical at its Trois-Rivières, Quebec, facility.
(Bottom) Mechanical is now placing most of its emphasis on the production of pulp and paper machinery. The wet end rolls of this pulp machine were fabricated by Mechanical.



Sales and profits this year were lower than 1981. However, the results are considered satisfactory in view of the business recession in the U.S. and its adverse effect on machine tool markets.

Expansion and productivity improvement plans for the Mt. Carmel, Illinois, plant proceeded on schedule. Equipment acquisitions included a large CNC milling machine, a plate burning machine and three 15 ton cranes. Building additions increased plant capacity by 14 per cent. Employee lunch room and locker facilities were enlarged and improved.

Research and development efforts were accelerated to maintain and improve the division's competitive position in product mix and technology. As a strategic move for domestic and international sales a new cost-efficient line of World-Series press brakes was developed for introduction in early 1982. In addition, new shear models and advanced electronic controls are currently in the design stage and scheduled for inclusion in the Pacific product line in the forthcoming year.

In 1981, sales of large press brakes and shears were strong; whereas those of certain types of stamping and drawing presses were softer than expected. During the year another record was set with the delivery of a 3,000 ton 27 foot long press brake – Pacific's largest ever – to a manufacturer of offshore drilling equipment in Houston, Texas.

The outlook for 1982 is clouded by the continuing recession in North America. Opening backlog is low and bookings for the first half of the year are likely to be slow. A recovery is anticipated in the second half. While the division's successful stock-delivery and new product development programs are expected to moderate the situation, 1982 results could fall short of 1981.

(Top) Eugene W. Pearson, President, Pacific Press, at Mt. Carmel, Illinois, plant, reviewing progress on assembly of huge press brake.
(Centre) A Pacific press brake with the division's newest microprocessor–based PSC 1000 programmable stroke control.
(Bottom) The fabrication of Pacific press brakes at the Mt. Carmel, Illinois, plant calls for the welding, machining and assembly of extremely heavy plate sections.

Sales were well ahead of last year. However, profits remained unsatisfactory at the breakeven level.

Despite the fact that 1981 markets for all of the division's products were depressed, a substantial amount of new orders was booked during the year. These included a portal crane and two Kingpost cranes for the U.S. Navy at Charleston, South Carolina; a container crane in Elizabeth, New Jersey, and a bridge in Alaska for Morrison-Knudsen. Contracts completed in 1981 included wellhead modules for Sohio and two bridge cranes for the Tennessee Valley Authority.

Successful commissioning of three container cranes for the Port of Charleston was a major milestone for the division. These cranes are working extremely well and demonstrate the division's competence in this product line. A fourth container crane for the same location is scheduled for completion in 1982.

Good progress was made in improving efficiency and the quality of the working environment in the Tacoma, Washington, plant. Also, a marked improvement in safety performance was achieved.

The organization was further strengthened during the year with the addition of several well qualified and experienced technical and administrative personnel.

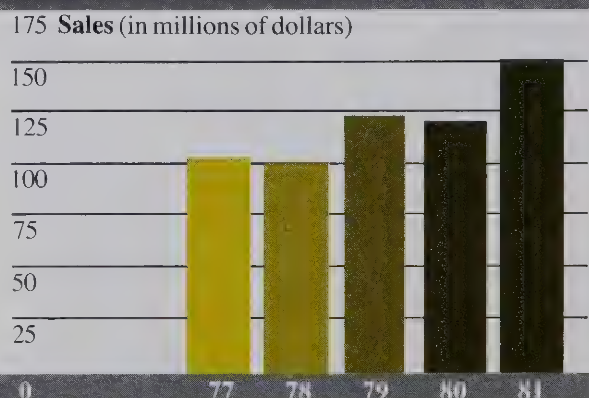
The division has a good backlog of work going into 1982. Despite the anticipated soft market conditions, results are likely to be profitable and sales substantially higher than 1981.

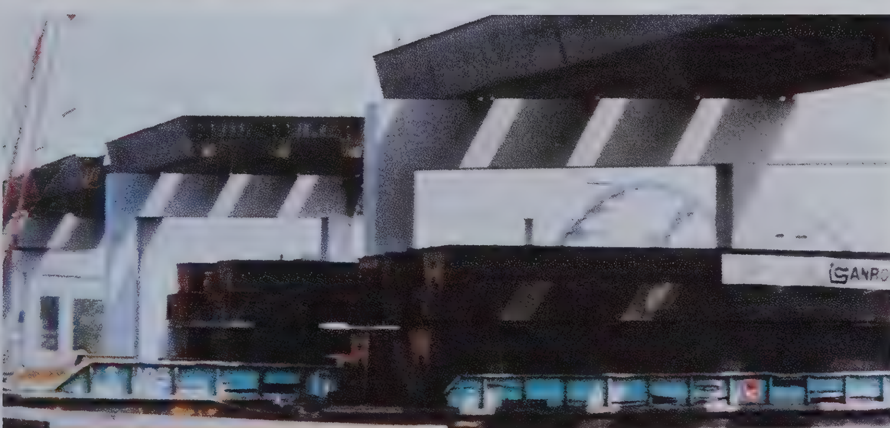
(Top) Gunther Hoffmann, General Manager, Star Iron, with erection crew foreman at South Carolina container crane jobsite.
(Bottom) Two of the three container handling cranes completed and installed by Star Iron are shown at the Port of Charleston, South Carolina. A fourth crane for the port is scheduled to be installed in 1982.

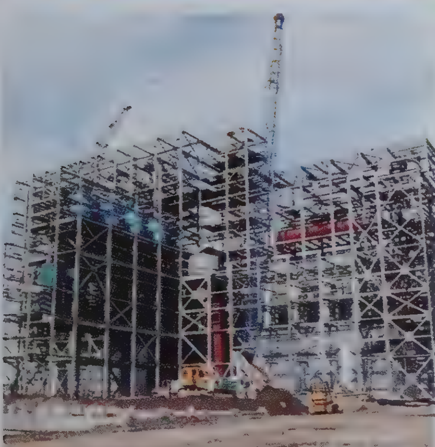
Steel fabrication & service

Eastern, Western, Star Iron Divisions

	1981	1980
Net sales	**150,064**	120,791
Operating profit	**11,318**	8,059
Identifiable assets	**52,665**	52,484
Capital expenditures	**2,068**	1,623
Depreciation	**1,329**	1,273







Sales and profits on completed contracts in 1981 showed a substantial increase over the previous year.

Two major contracts completed during the year were the powerhouse steelwork for Units 1 and 2 of TransAlta Utilities Keephills generating station near Edmonton, Alberta, and the structural steel for Northwood Pulp and Timber's expansion at Prince George, British Columbia. In addition, several smaller contracts were completed including the steelwork for B.C. Coal's Greenhills project, draft tube gates for B.C. Hydro's Revelstoke project and reconstruction of the Mars Creek Bridge for the Ministry of Transportation in B.C.

Structural steel contract bookings included 10,000 tons for the Petrocan head office building in Calgary, Alberta. Construction Service activity increased considerably in 1981 and contract bookings for closing in 1982 included the precipitators for Lodge Cottrell at Keephills generating station, the fabrication and erection of a floating pump station at the same location; construction of a water reservoir at Duke Point on Vancouver Island and modifications to a regenerator head at Imperial Oil's Ioco refinery in Port Moody, B.C.

The division was also awarded by Pipework Engineering, a subsidiary of British Steel Corporation, a major contract extending beyond 1982 for installation of high pressure steam pipework in Alberta Power's Sheerness generating station.

In October, Western Bridge and Tri Ocean Engineering Ltd. of Calgary founded Pacific Offshore Petroleum Contractors Ltd. The new company is based in Vancouver and will provide technical expertise, fabrication facilities and personnel to meet the needs of the Canadian petroleum industry in the Pacific and Arctic Oceans.

Long-term prospects for western Canada appear excellent. Of more immediate concern is the prospect for 1982 because of poor economic conditions that prevail throughout North America and in particular, the depressed state of the forest industries in B.C. Several major projects in B.C. have been delayed. The Pier B-C, convention facility in Vancouver for which the division was the contractor, was recently cancelled. Sales and profits for 1982 are likely to be lower than 1981.

(Top) Geoffrey Lindup, General Manager, Western Bridge, on the shop floor of the Vancouver, British Columbia, fabricating plant.
(Centre) A small portion of the 7,000 tons of box girders and trusses fabricated by Western Bridge for the I-90 bridge in West Seattle, Washington.
(Bottom left) Completed powerhouse steelwork for TransAlta Utilities Keephills generating station, near Edmonton, Alberta.
(Bottom right) One of 12 steel module bases fabricated by Western Bridge for a water flood facility at Prudhoe Bay, Alaska. The bases were shipped by barge from Vancouver to the Ralph M. Parsons construction site in Tacoma, Washington.

Sales and profits were substantially ahead of last year's results. These gains resulted from the combination of a higher level of contract closings at improved margins and elimination of the unprofitable Montreal operation (the decision to close this operation was noted in last year's annual report).

Important new orders received in 1981 included the coal handling system structures for the Ontario Hydro Atikokan generating station; Potash Company of America head frame, at Sussex, New Brunswick, and the General Motors plant addition in Oshawa, Ontario.

Several major contracts were completed in 1981. These included the 14,000 ton Alumina processing facility in Aughinish, Ireland; Abitibi No. 8 machine room, Iroquois Falls, Ontario; Stock Exchange Tower, First Canadian Place, Phase II, Toronto, Ontario; Denison Mines Hydro Project uranium process facility expansion, Elliot Lake, Ontario; General Motors oven enclosure area and paint shop Phase III, Oshawa.

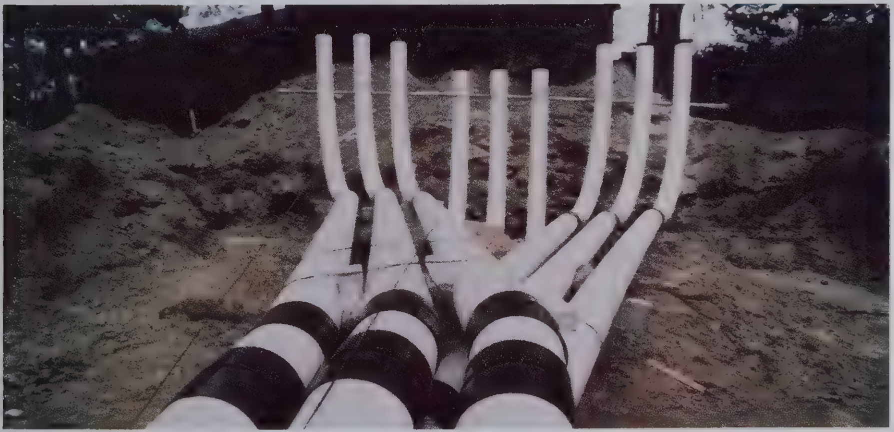
Construction Services sales were on plan and orders received included the installation of five furnaces for Shell Oil's Scotsford refinery at Edmonton, Alberta.

The Toronto plant operated at full capacity throughout the year except for an unfortunate five week strike which was settled when a new two year agreement was reached in September. A new two year agreement was also negotiated with the draftsmen's office union. Unlike 1980, mill steel from domestic mills was in plentiful supply throughout most of 1981.

The Electrical Bus Duct department was reorganized during the year and is now well prepared for improved performance in 1982. Orders were received for cable and isolated phase bus duct for Phase II at the TransAlta Utilities Keephills generating station near Edmonton and cable duct for Ontario Hydro at Atikokan. The cable duct contracts for Northwood Pulp and Timber in British Columbia and Dofasco Melt Shop, Hamilton, Ontario, together with a cable bus and isolated phase bus contract at the TransAlta Keephills generating station Phase I were completed in 1981.

Market conditions throughout 1982 are expected to be very competitive and the division will enter the year with a relatively low backlog. The focus in 1982 will be on improved productivity in all areas. Operating results for the year will likely be lower than 1981.

(Top) Norman Dickinson, General Manager, Eastern Structural, and the plant superintendent with fabricated steel components being prepared for shipment from the Rexdale, Ontario, plant.
(Below left) Eastern Structural fabricated and erected the structural steel for Phase II of the First Canadian Place complex in Toronto.
(Below right) Cable bus duct from the Bus Duct Division of Eastern Structural carries power to two electric furnaces at a major automotive engine foundry.



Sales for 1981 were moderately ahead of the previous year. However, profits were considerably lower as a result of poor market conditions which had a strong negative impact on selling prices for most products.

Sales of plumbing products were flat, reflecting the low level of housing starts throughout 1981. In order to reduce dependence on housing related products, further diversification into electrical products was made during the year and this accounted for most of the gain in sales.

A major contract was obtained from Bell Canada to supply underground duct over a three year period. This contract will help to stabilize production during the winter months as well as other periods of low activity.

There was a distinct shift during the year toward product made with PVC (polyvinyl chloride) resins. This included the Bell Canada contract. In November, the division acquired from Domtar Inc. its plastic underground duct business and assets located in Montreal. The plant specialized in the extrusion of PVC resins and will meet the increased extrusion capacity requirements for this resin and enable the division to better serve the Quebec market.

Plastic resins were in plentiful supply throughout the year with minimal price increases.

Capital spending in 1981 was directed mostly to cost reduction projects designed to help offset inflation in salaries and services. A new large extruder was added at the Rexdale, Ontario plant to increase capacity.

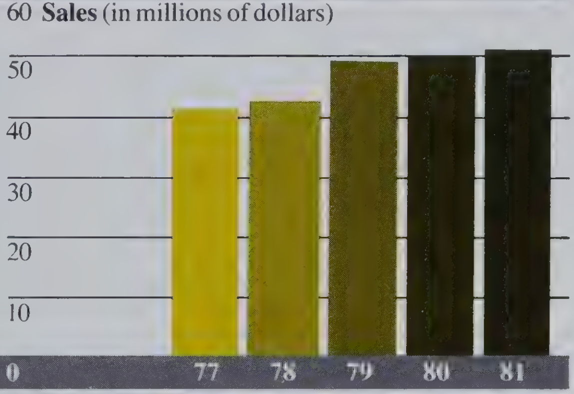
While market conditions in 1982 are not expected to improve over 1981, the division expects a substantial increase in sales largely due to the additional business associated with the Bell Canada contract. Profits are likely to recover from the drop experienced in 1981.

(Top) Jacques P. Robert, General Manager, Plastics, with Rexdale, Ontario, plant manager, inspecting plastic pipe as it emerges from extrusion machine.
(Centre) Underground power cable ducts, complete with factory supplied curved sections, are laid out ready for installation into a sub-station.
(Bottom) Plastic electrical conduit, here being installed for a new residential electrical service, is finding increased use as more and more electric and telephone services are installed underground.

Other

Plastics & Canrep Divisions

	1981	1980
Net sales	**51,291**	49,495
Operating profit	**1,197**	3,710
Identifiable assets	**23,017**	20,739
Capital expenditures	**2,956**	1,011
Depreciation	**787**	714



The weak economic conditions prevalent in most sectors of the Canadian economy throughout the year resulted in sales and profits both being lower than 1980.

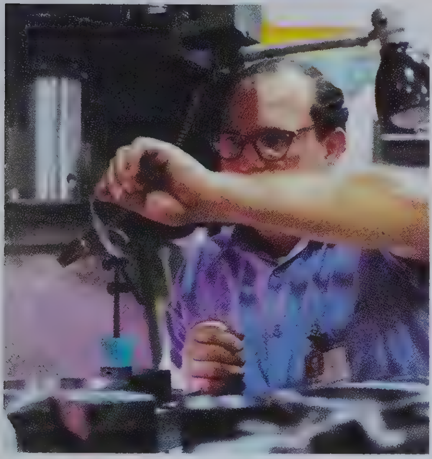
Major labor disruptions in British Columbia and Hamilton, Ontario, adversely affected results at two of Canrep's traditionally strong branches. Also, due to competitive factors, molybdenum sales fell sharply.

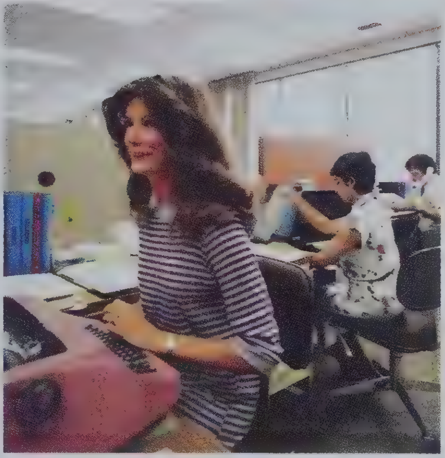
Sales of many primary lines were up substantially in 1981. The division's ability to gain market share on target product lines is growing steadily. In addition, transportation product operations remain a strong factor in the division's performance. These conditions reflect the new operating and product line strategies which were commenced in 1981. A large order for military vehicle accessories was received from Bombardier during the last quarter with delivery scheduled over 1982 and 1983.

New offices were opened in Dartmouth, Nova Scotia, and Mississauga, Ontario, during the year as part of the division's plans to upgrade the geographic location and quality of its warehousing operations.

Operations in 1982 are expected to be profitable with a moderate increase in sales.

(Top) André Thompson, General Manager, Canrep, checking stock at the newest Canrep sales office and warehouse in Mississauga, Ontario.
(Below) A sampling of the diversified tools and equipment distributed by Canrep to Canadian industry.





Canron believes that an environment which encourages participation, initiative and creativity, recognizes development and achievement, and promotes mutual trust between the Corporation and its employees is essential for the long-term benefit of everyone.

This philosophy encompasses a wide spectrum of activities, responsibilities and levels of authority. Consequently, the Corporation has in place or planned, a corresponding range of training and development programs designed to improve managerial effectiveness and job opportunities at all levels.

In 1981, nine collective agreements were negotiated, eight for two year periods and one for a three year period (in one instance – Eastern Structural Division plant at Rexdale, Ontario – there was a five week strike prior to reaching agreement). The settlements were generally consistent within the industry in which the plants operate and all provide some form of cost of living allowance. Eighteen agreements are scheduled for negotiation during 1982 and in addition, outside construction labor contracts in all provinces will also be negotiated.

The Corporation's pensioners again received a voluntary increase in their monthly pensions beginning with the January, 1982, payments. This is the fourth increase in the past six years given in an effort to at least partially compensate for the impact of inflation on the income of these former employees.

Health and safety are key factors in the Corporation's operating procedures. The continuing attention paid to safety training and accident prevention brought about a reduction of over 100 lost time accidents compared with the previous year. The Corporation's accident frequency rate was below the industry average. Particular credit is given to the Plastics Division, Saint John, New Brunswick, plant which had an accident-free year in 1981.

OVERVIEW

Earnings for the year were down as gains through first nine months were eliminated by sharp drop in the fourth quarter.

The year 1981 commenced with some uncertainty – sales in the first quarter were up over the previous year but costs showed a slightly higher rate of increase. The situation reversed in the second quarter as the rate of increase for sales exceeded that of costs.

The third quarter proved exceptionally strong with a substantial increase in sales and contract closings against both the preceding quarters and the same period of 1980. This brought year-over-year sales and costs to a cumulative increase of 15.6 per cent and 15.8 per cent with strong performances in both the Iron Foundry and Steel Fabrication segments.

In the final quarter, the full impact of recessions in key market areas became fully apparent. Sales were flat and operating results in all business segments showed sharp declines over the 1980 period.

OPERATING RESULTS

Increase in costs and expenses outstrips sales increase.

Sales for 1981 were up 10.9 per cent while costs increased 12.2 per cent over the previous year resulting in a small reduction in the operating profit. Iron Foundry and Steel Fabrication profits were significantly higher as a result of the increased sales for these segments and more efficient production. Also, market conditions were more favorable at the time the steel fabrication contracts were booked.

The drastic decline in North American and European market conditions had a severe negative impact on the Machinery Equipment and Other segments.

Higher interest rates and average borrowing combined to raise interest costs.

While interest rates in 1981 fluctuated far less than in 1980, the average rate for the year was significantly higher. Increased sales for 1981 raised working capital requirements and the amount of short-term borrowing.

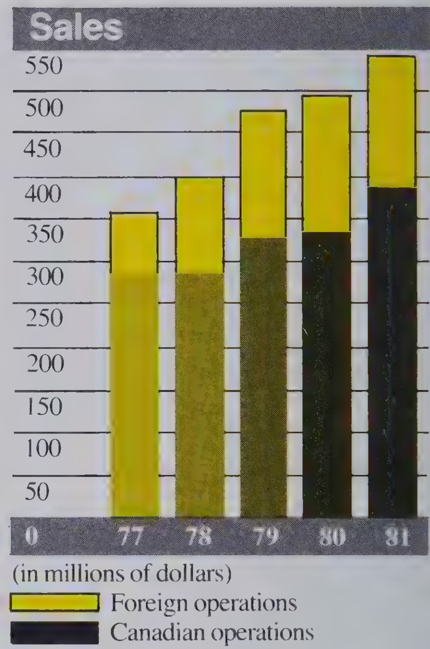
These conditions combined to increase 1981 interest costs by 15.9 per cent over the 1980 amount. The use of alternative market instruments, including commercial paper, kept the effective short-term interest rate below the average prime rate of 1981.

The higher interest rate also affected dividends on the Series A Preferred Shares. The 1981 dividend increased 27.3 per cent over the 1980 amount.

Effective income tax rate down as a result of tax reserve adjustments and variations in source of profits.

Final settlements were reached in 1981 on a long-standing U.S. tax dispute and other general contingencies, with a favorable outcome for the Corporation. This necessitated elimination of $3.0 million of accumulated tax reserves with a corresponding reduction in the 1981 tax provision. This adjustment reduced the effective tax rate by 16.8 percentage points (a preliminary adjustment of $2.2 million was made in 1980 with a resulting 10.3 point reduction in the effective rate for that year). No further adjustments are contemplated.

Variations in the source of income between domestic and foreign operations, including the Corporation's international finance subsidiary account for the remaining difference in the 1981 effective tax rate compared with 1980.



Tax reserve adjustments impact on earnings per share.

The tabulation below sets out the effect of the tax adjustments on earnings per share (EPS):

	1981	1980
EPS before extraordinary item	**$2.48**	$2.61
Value of tax adjustment	**.54**	.41
EPS – normalized	**1.94**	2.20

Closure of Montreal structural steel operations resulted in an extraordinary loss.

The Eastern Structural Division, Montreal plant, was closed early in 1981 following a decision taken in February as part of the Corporate strategy to redeploy investments where the historical and prospective returns are unacceptable.

The gross cost of the closure was $1.1 million with tax credits reducing the net amount to $529,000. This is substantially less than the initial estimate given in last year's Annual Report. The loss in earnings per common share was 10 cents.

Return on shareholder equity below target rate.

Return on common equity (book value) was 12.6 per cent for 1981 compared with 15.1 per cent for 1980. These returns fall short of the Corporation's target of at least 18 per cent on equity and considerable work is required in order to reach and exceed the target.

The extraordinary loss on the closure of the Montreal structural operations reduced the 1981 return by 0.5 percentage points. Longer-term, this type of action will have a positive impact on financial performance.

FINANCIAL POSITION

Financial liquidity remains strong.

Working capital increased 10.3 per cent, in line with the higher amount of sales. The current ratio moved to 1.76:1 from 1.65:1 at the end of the 1980.

The key components of the working capital, i.e. Accounts Receivable, Inventory and Accounts Payable increased $21.4 million in the year financed through retained earnings and short-term borrowing.

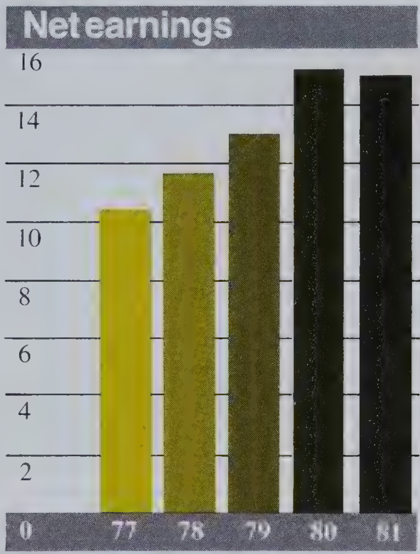
Strategy of higher exports necessitates increased level of inventories.

Inventories were up $25.1 million in the year with a significant portion of the increase occurring in the final quarter. Changes in the Pipe and Matisa business strategies had an impact on the normal seasonal pattern of inventory accumulation in the first half and reduction in the second half of the year.

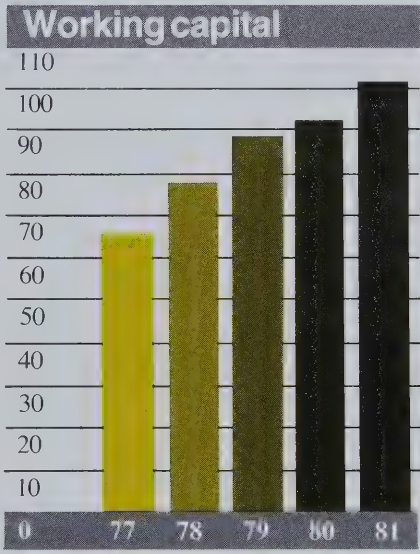
Pipe Division export sales are not as seasonal as domestic business and involve fewer but much larger shipments for each order. This requires greater accumulation of inventory. Consequently, the division maintained a high level of production throughout the second half of 1981 to service orders in hand or anticipated for delivery early in 1982.

Matisa's inventory also increased in 1981. The buildup was in part deliberate to provide faster sales response in targeted markets. A portion of the increase resulted from delays in receipt or delivery of orders.

There is some risk in these strategies involving the prospects of additional margin against the financial costs in carrying the higher inventories.



(in millions of dollars)



(in millions of dollars)

Capital spending in 1981 up substantially over previous year.

Spending on plant and equipment totalled $14.2 million in 1981 compared with $9.2 million for 1980. Capital expenditures in the previous five years averaged $11.7 million per annum.

A major portion of the expenditures continued to be directed at equipment replacement and modernization, including the additions of several numerical-controlled machine tools.

Pipe Division expended about $1.1 million at their Calgary iron pipe plant for modifications to the cupola and specialized metal treatment equipment. Contracting equipment valued at $1.2 million was added by Tamper Division.

Late in the year, Plastics Division acquired the business and assets of the former Domtar plastics duct operation in Montreal. The value of the equipment is included in the total of the 1981 capital expenditures.

Conservative Debt/Equity position is maintained with modest addition of medium-term financing.

In order to reduce the level of debt subject to more volatile short-term interest rates, US$5 million of short-term borrowing was converted in 1981 to a five-year term loan. Additionally, a small amount of medium-term financing with a very attractive interest rate was utilized in connection with a major equipment supply contract.

The long-term debt-to-equity ratio at year-end was 20:80 compared with 18:82 at the end of 1980.

1981 trading activity of Canron Common stock down from record highs in 1980.

The volume of trading in the Corporation's Common stock totalled 1.3 million shares in 1981 which is about two-thirds of the record volume recorded in 1980. This year's volume was more in line with historical levels.

There has been a marked increase in the portion of the Corporation's stock held by institutions – now 72 per cent compared with 63 per cent in 1980. The increase appears to mirror the Toronto Stock Exchange analysis of stock trading activity for 1981 in which the institutions represented a significantly higher share of total trades.

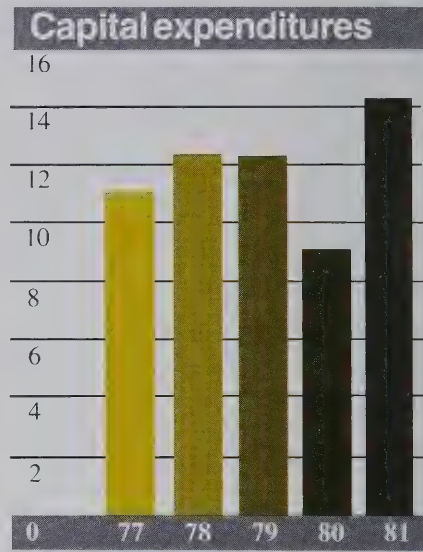
Additional details of stock trading activity are given on page 1.

Common share quarterly dividend increased to 25 cents from 23 cents.

The quarterly dividend on Common shares was raised to 25¢ effective with the October 1, 1981, payment. This brought the total payment for 1981 to 94¢ per share (1980 was 92¢). The 1981 payment represented a payout rate of 39.5 per cent of earnings per share and was in line with the present dividend payout target of 35 – 40 per cent of average earnings.

A number of major events took place during 1981.

Special actions in 1981 which were outside the normal course of existing operations included:
- Mechanical Division restructuring plan implemented;
- Montreal structural steel operation closed and assets sold;
- Pacific Offshore Petroleum Contractors Ltd. (a joint venture with Tri Ocean Engineering Ltd.) formed to serve the Canadian petroleum industry in the Pacific and Arctic Oceans;
- Domtar Inc. Montreal plastic duct business and assets acquired by the Plastics Division;
- Canron Pipework Engineering Development Inc., also a joint venture (with Pipework Engineering (P.E.D.) Ltd. in U.K.) organized to provide design, engineering, fabrication and installation service for pipework and mechanical projects.



(in millions of dollars)

(in millions of dollars)

Industry segment

	CONSOLIDATED		IRON FOUNDRY		MACHINERY AND EQUIPMENT		STEEL FABRICATION AND SERVICE		OTHER		CORPORATE	
	1981	1980	**1981**	1980	**1981**	1980	**1981**	1980	**1981**	1980	**1981**	1980
Sales												
External	**543.0**	489.7	**169.7**	145.8	**171.9**	173.6	**150.1**	120.8	**51.3**	49.5	–	–
Intersegment	**0.9**	3.1	**0.2**	1.2	–	0.8	–	0.4	**0.7**	0.7	–	–
Total	**543.9**	492.8	**169.9**	147.0	**171.9**	174.4	**150.1**	121.2	**52.0**	50.2	–	–
Operating profit	**33.8**	35.1	**15.8**	9.9	**5.5**	13.4	**11.3**	8.1	**1.2**	3.7	–	–
Assets	**305.3**	297.9	**84.3**	72.3	**128.0**	119.4	**52.7**	52.5	**23.0**	20.7	**17.3**	33.0
Liabilities	**(135.3)**	(141.9)	**(16.8)**	(18.1)	**(27.5)**	(32.5)	**(18.4)**	(19.4)	**(6.0)**	(5.1)	**(66.6)**	(66.8)
Net assets	**170.0**	156.0	**67.5**	54.2	**100.5**	86.9	**34.3**	33.1	**17.0**	15.6	**(49.3)**	(33.8)
Capital expenditures	**14.2**	9.2	**3.4**	2.1	**4.9**	4.3	**2.1**	1.6	**3.0**	1.0	**0.8**	0.2
Depreciation	**8.9**	8.3	**3.3**	3.2	**3.3**	3.0	**1.3**	1.3	**0.8**	0.7	**0.2**	0.1

Geographic segment

	CONSOLIDATED		CANADA		U.S.A.		EUROPE		OTHER	
	1981	1980	**1981**	1980	**1981**	1980	**1981**	1980	**1981**	1980
Sales										
External	**543.0**	489.7	**392.4**	334.8	**95.6**	92.8	**45.5**	55.0	**9.5**	7.1
Intersegment	**7.5**	7.6	–	–	**7.2**	7.2	**0.3**	0.4	–	–
Total	**550.5**	497.3	**392.4**	334.8	**102.8**	100.0	**45.8**	55.4	**9.5**	7.1
Operating profit	**33.8**	35.1	**29.9**	21.5	**5.7**	10.9	**(2.6)**	2.3	**0.8**	0.4
Assets	**305.3**	297.9	**187.2**	188.2	**53.6**	58.1	**58.6**	46.8	**5.9**	4.8

Segment operating profit	**33.8**	35.1
Corporate expenses	**7.7**	6.3
Interest	**8.6**	7.4
Income taxes	**2.4**	6.1
Earnings before extraordinary item	**15.1**	15.3
Extraordinary loss	**0.5**	–
Net earnings	**14.6**	15.3

Financial information on the Corporation's industry and geographic segments is given above. Definitions relative to the information provided are as follows:

– Operating Profit is sales less operating expenses. It does not include general corporate expenses and income, interest expense and income taxes which are shown separately in the reconciliation to net earnings.

– Assets are current assets and fixed assets (at net book value) used for operations. Corporate assets are principally cash and short-term investments. Liabilities from operations are mainly trade accounts payable. Corporate liabilities include bank advances, dividends payable and the current portions of long-term debt and deferred income taxes.

– Capital expenditures are amounts expended in the year for land, buildings and equipment.

A description of the products and services from which industry segments derive their revenue is provided under Facilities, products and services on pages 28 and 29.

The 1980 comparative figures have been restated to conform with the 1981 presentation.

Canadian operations include export sales of $47,250,000 (1980 – $55,803,000).

CANRON INC. Year ended December 31, 1981

Basis of accounting	The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada.
Consolidation	The consolidated financial statements include the accounts of all subsidiaries. All intercorporate balances and transactions are eliminated.
Revenue recognition	Sales are recorded when goods are shipped, services are provided and construction contracts are completed.
Inventory valuation	Finished goods and work-in-progress are valued at the lower of cost and net realizable value and raw materials are valued at the lower of cost and replacement cost. Costs are determined on a first-in, first-out (FIFO) basis. Costs incurred to date on uncompleted contracts are classified as work-in-progress. Progress billings on contracts are deducted from work-in-progress.
Fixed assets	Land, buildings and equipment are recorded at cost. Depreciation is based on the estimated useful life of each major classification of assets, calculated principally on the diminishing balance method. The annual rates of depreciation range from 2.5% for some buildings to 30% for automotive and mobile construction equipment.
Foreign currency translation	Net working capital of non-Canadian operations is translated to Canadian dollars at exchange rates in effect at year-end. All other assets and liabilities of non-Canadian operations are translated at historical exchange rates. Sales and expenses of these operations are translated at weighted average exchange rates for the year. On translation of the accounts of non-Canadian operations, any net unrealized gain is deferred and any net unrealized loss is expensed.

Consolidated statement of earnings

CANRON INC. Year ended December 31, 1981 (thousands of dollars)

		1981	1980
Sales		**543,012**	489,702
Cost and expenses			
	Cost of sales	**454,578**	403,532
	Selling and administrative	**62,324**	57,334
	Interest	**8,570**	7,392
	Income taxes (note 8)	**2,400**	6,109
		527,872	474,367
Earnings before extraordinary item		**15,140**	15,335
Extraordinary loss (note 9)		**529**	–
Net earnings		**14,611**	15,335
Earnings per common share (dollars)			
	Before extraordinary item	**2.48**	2.61
	Extraordinary loss	**0.10**	–
	Net earnings	**2.38**	2.61

Consolidated statement of retained earnings

CANRON INC. Year ended December 31, 1981 (thousands of dollars)

		1981	1980
Balance beginning of year		**88,617**	79,541
Net earnings		**14,611**	15,335
		103,228	94,876
Dividends			
	Preferred shares		
	1974 Issue	**17**	27
	Series 'A'	**1,610**	1,265
	Common shares		
	Class 'A'	**4,930**	4,729
	Class 'B'	**304**	238
		6,861	6,259
Balance — end of year		**96,367**	88,617

CANRON INC. December 31, 1981 (thousands of dollars)

		1981	1980
Current assets			
	Cash	**1,992**	2,133
	Short-term investments	**11,211**	27,124
	Accounts receivable	**84,979**	91,074
	Inventories (note 1)	**137,945**	112,855
	Prepaid expenses	**1,397**	1,372
		237,524	234,558
Current liabilities			
	Bank advances and notes payable	**46,098**	48,163
	Accounts payable	**76,052**	78,430
	Dividends	**1,370**	1,254
	Income taxes — current	**1,076**	2,990
	— deferred	**9,524**	10,415
	Long-term debt — current portion (note 4)	**1,164**	631
		135,284	141,883
Working capital		**102,240**	92,675
Fixed assets (note 2)		**65,907**	61,534
Other assets (note 3)		**1,844**	1,828
Capital employed		**169,991**	156,037
Represented by:			
Deferred income taxes		**12,383**	12,145
Long-term debt (note 4)		**31,136**	25,648
Shareholders' equity (note 5)			
	Preferred shares	**15,265**	15,338
	Common shares	**14,840**	14,289
	Retained earnings	**96,367**	88,617
		126,472	118,244
		169,991	156,037

Signed on behalf of the Board

C.S. Malone

C.S. Malone, Director

W.S. Cullens

W.S. Cullens, Director

CANRON INC. Year ended December 31, 1981 (thousands of dollars)

		1981	1980
Source of working capital			
	Earnings before extraordinary item	**15,140**	15,335
	Depreciation and amortization	**8,937**	8,382
	Deferred income taxes	**238**	(2,587)
	Provided from operations	**24,315**	21,130
	Fixed asset disposals	**890**	311
	Proceeds from issue of common shares	**163**	776
	Proceeds from long-term borrowing	**7,467**	–
		32,835	22,217
Use of working capital			
	Fixed asset additions	**14,163**	9,171
	Long-term debt repayment	**1,979**	1,872
	Other assets	**53**	1,351
	Dividends	**6,546**	6,063
	Extraordinary loss	**529**	–
		23,270	18,457
Working capital			
	Increase	**9,565**	3,760
	Beginning balance	**92,675**	88,915
	Ending balance	**102,240**	92,675

Auditors' report to the shareholders

We have examined the consolidated statement of financial position of Canron Inc. as at December 31, 1981 and the consolidated statement of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

Chartered accountants
Toronto, Ontario
February 10, 1982

CANRON INC. Year ended December 31, 1981

1. Inventories

	1981	1980
	(thousands of dollars)	
Work-in-progress	**108,660**	131,015
Less: progress billings	**66,821**	100,952
	41,839	30,063
Raw materials	**45,414**	50,263
Finished goods	**50,692**	32,529
	137,945	112,855

2. Fixed assets

(thousands of dollars)

	Cost	Accumulated depreciation	Net	Net
Land	**4,000**	—	**4,000**	4,346
Buildings	**41,475**	**21,644**	**19,831**	20,630
Equipment	**120,158**	**78,082**	**42,076**	36,558
			65,907	61,534
Depreciation expense			**8,900**	8,345

3. Other assets

Included in Other assets is $1,533,068 of mortgage and Share Purchase Plan loans to employees, of which $720,478 is receivable from Officers of the Corporation. The loans are for periods ranging from five to twenty-one years and are repayable by monthly installments.

4. Long-term debt

	(thousands of dollars)	
6¾% Sinking Fund Debentures — series 'D' due May 15, 1987; Annual sinking fund — $800,000 May 15, 1982 to 1986	**6,841**	7,329
9¼% Sinking Fund Debentures — series 'E' due April 1, 1994; Annual sinking fund — $650,000 April 1, 1982 to 1986; $850,000 April 1, 1987 to 1993	**12,117**	12,640
14¾% Bank Loan of US $5 million due November 30, 1986	**5,900**	
Other debentures and mortgages 5% to 9½% due at various dates to 1994 (including debt of SFRS 13.1 million and US $3.2 million)	**7,442**	6,310
	32,300	26,279
Less: current portion	**1,164**	631
	31,136	25,648

Payments for the next five years, in accordance with the terms of the debentures and mortgages (assuming the December 31, 1981 exchange rate for 1982 and historical rates for the remainder), are as follows:

	(thousands of dollars)
1982	**1,164**
1983	**2,873**
1984	**2,105**
1985	**1,934**
1986	**9,244**

Long-term debt interest expense for 1981 totalled $2,924,000 (1980 — $2,597,000).

5. Shareholders' equity

	1981	1980
	(thousands of dollars)	
(a) Preferred shares		
Authorized—		
Unlimited number of Preferred shares, issuable in series, without par value		
Outstanding and fully paid—		
2,655 \$6.00 Cumulative Convertible Redeemable First Preferred shares, 1974 Issue	**265**	338
600,000 Series 'A' Floating Rate Cumulative Redeemable Retractable Preferred shares	**15,000**	15,000
	15,265	15,338

Each First Preferred share, 1974 Issue, is convertible until April 1, 1984 at the option of the holder into eight fully paid Class 'A' or Class 'B' Common shares. A total of 730 shares were converted in 1981 (3,860 in 1980). The shares are redeemable any time at the option of the Corporation at \$106 per share; however, a retirement fund which must be commenced in 1985 provides for their redemption at \$103 per share.

The Series 'A' Preferred shares are entitled to cumulative dividends at a rate equal to the sum of one half of the Canadian bank prime lending rate and one and one quarter percent applied on \$25 per share. Each share is redeemable at the option of the Corporation at \$25. The Corporation must offer to purchase, at that price, 120,000 shares in 1986, 120,000 in 1987 and all outstanding shares in 1988.

	1981	1980
(b) Common shares		
Authorized —		
Unlimited number of Class 'A' and Class 'B' Common shares without par value		
Outstanding and fully paid–		
5,189,623 Class 'A' Common shares	**13,785**	13,201
272,601 Class 'B' Common shares	**1,055**	1,088
	14,840	14,289

The Class 'A' and 'B' Common shares are interconvertible with the same rights, privileges, restrictions and conditions, except that dividends on Class 'B' shares may be paid in Class 'B' shares instead of cash.

	Number of common shares Class 'A'	Class 'B'
Outstanding — January 1, 1981	5,085,186	343,228
Changes during the year —		
—Conversion of First Preferred shares, 1974 Issue	5,840	—
—Interconversion of 'A' and 'B' —net	89,097	(89,097)
—Stock dividends (equivalent market value, 1981 — \$314,990; 1980 — \$196,473)	—	18,470
—Share Purchase Plan	9,500	—
Outstanding — December 31, 1981	5,189,623	272,601

A further 4,089 Class 'B' Common shares (market value \$68,150) were declared as a stock dividend in 1981 to be issued on January 4, 1982.

6. Pension plans

An unfunded past service pension liability estimated at $5,116,000 existed at December 31, 1981 (1980 — $5,214,000). This liability and interest thereon is being funded by equal annual installments which will be charged to operations when paid as follows:

	(thousands of dollars)
1982—1992	605
1993	325
1994	234
1995	101
1996	42

7. Research and development

Expenditures for product research and development in 1981 totalled $3,096,000 (1980 - $2,887,000), which is included in cost of sales.

8. Income taxes

Final settlements were reached late in 1981 on a long-standing U.S. tax dispute and other general tax contingencies. As a result, the 1981 income tax provision includes a credit of $2,951,000 – 54¢ per share (1980 – $2,200,000 – 41¢ per share) from the adjustment of reserves established in prior years for these matters.

9. Extraordinary loss

A decision was made early in 1981 to close the Eastern Structural division operations in Montreal. Operations ceased in March, but the shutdown and disposal of equipment extended over most of 1981. The after-tax cost of this plant closing was $529,000, which includes an income tax recovery of $662,000.

10. Contingency

A judgement was rendered April 25th, 1980 by the District Court of South Carolina in favour of Plasser American Corporation against Canron Corp., a subsidiary of Canron Inc., in respect of the manufacture of certain railway track maintenance machinery alleged to infringe patents held by Plasser. Canron Corp. has appealed the judgement and on motions by it the injunctive provisions of the judgement have been stayed and on April 20, 1981 the award of triple damages and attorneys' fees were reserved for consideration in the event of a trial on damages.

Since the amount of loss, if any, cannot be reasonably estimated, no charge to income has been made. If the Corporation loses the appeal, the loss would be accounted for as a prior period adjustment.

11. Segmented information

Financial information on the Corporation's industry and geographic segments is given on page 19 and a description of products and services from which the industry segments derive their revenue is provided under Facilities, Products and Services on pages 28 and 29.

CANRON INC.	1981	1980	1979	1978	1977
Results of operations (millions of dollars)					
Sales	**543.0**	489.7	472.2	400.4	363.1
Earnings before income taxes	**17.5**	21.4	22.6	20.8	21.1
Income taxes	**2.4**	6.1	9.5	9.4	10.7
Net earnings					
Before extraordinary item	**15.1**	15.3	13.1	11.4	10.4
After extraordinary item	**14.6**	15.3	13.1	11.4	10.4
Financial position (millions of dollars)					
Working capital	**102.2**	92.7	88.9	79.8	64.4
Net fixed assets	**65.9**	61.5	61.0	57.5	53.2
Other assets	**1.9**	1.8	0.5	1.4	1.9
Capital employed	**170.0**	156.0	150.4	138.7	119.5
Deferred income taxes	**12.4**	12.1	14.7	8.2	8.8
Long-term debt	**31.1**	25.7	27.5	29.6	31.2
Shareholders' equity					
Preferred	**15.3**	15.3	15.7	16.5	2.5
Common	**111.2**	102.9	92.5	84.4	77.0
Performance measurements					
Net earnings as a percentage of sales	**2.8%**	3.1%	2.8%	2.9%	2.9%
Return on common shareholders' equity	**12.6%**	15.1%	13.9%	13.6%	13.8%
Return on capital employed	**11.0%**	11.4%	10.7%	10.9%	10.5%
Current ratio	**1.8**	1.7	1.8	1.8	1.8
Common share data (dollars)					
Earnings per share					
Before extraordinary item	**2.48**	2.61	2.26	2.06	1.98
After extraordinary item	**2.38**	2.61	2.26	2.06	1.98
Dividends paid	**0.94**	0.92	0.88	0.86	0.86
Book value	**20.36**	18.96	17.35	16.03	14.87
Other (millions of dollars)					
Capital expenditures	**14.2**	9.2	12.3	12.5	11.2
Depreciation	**8.9**	8.3	8.3	7.8	7.2
Backlog of orders	**222.4**	253.5	247.0	215.5	171.4
Shareholders and employees					
Number of shareholders	**3,398**	3,693	3,670	3,793	4,031
Common shares outstanding	**5,462,224**	5,428,414	5,329,703	5,265,769	5,176,068
Number of employees	**5,397**	5,435	5,632	5,723	5,557

Foundry

John M. Gandy
General Manager
Main office:
3050 Harvester Road
Burlington, Ont.
L7N 3K7
Tel. (416) 681-1221
Offices:
Burlington,
New Liskeard, Ont.
Plants:
Hamilton (2),
St. Thomas,
New Liskeard, Ont.

Ingot moulds and stools
Railway brakeshoes
Municipal castings
Grinding mill liners
Various grey, ductile and alloy iron castings
Mine cars, cages, skips and loading pockets
Heat and abrasion resistant steel castings

Pipe

Stuart C. L. Eccles
General Manager
Main office:
101 Queensway West
Mississauga, Ont.
L5B 2P7
Tel. (416) 276-7311
Offices:
St. John's, Nfld.; Dartmouth, N.S.; Ville d'Anjou, Quebec City, Que.; Rexdale, Mississauga, Ont.; Winnipeg, Man; Calgary, Alta.; Vancouver, B.C.
Plants:
Ville d'Anjou, Trois-Rivières, Que.; Toronto, Rexdale, Ont; Calgary, Cochrane, Alta.

Water pressure pipe and fittings
– ductile iron
– concrete (Hyprescon)
Wear resistant pipe and fittings
Hydrants

Tamper

Arnold F. Bygate
General Manager
Main office:
2401 Edmund Road
West Columbia, SC
29169
Tel. (803) 794-9160
Offices:
West Columbia, SC; Toronto, Ont.; Lachine, Que; Melbourne, Australia
Plants:
West Columbia, SC; Toronto, Ont.; Melbourne, Australia

Matisa

Ragnar Blomqwist
General Manager
Main office:
Arc-en-Ciel 2 Crissier
Switzerland
Tel. (021) 34.94.34
Offices:
Crissier, Switzerland; Bielefeld, West Germany; Palomba, Italy; Paris, France; Madrid, Spain; Bedford, England; Tokyo, Japan
Plants:
Crissier, Renens, Switzerland; Palomba, Italy; Madrid, Spain; Sens, France

Tamping equipment:
Production switch and spot tampers (manual, semi-automatic, fully automatic)
Track equipment:
Track renewal trains, car movers, rail laying machines, rail renewal systems, automatic spike drivers, track recording cars, brush cutters, snow blowers, rail gauging machines, rail lubricators, track gauges and levels
Ballasting equipment:
Ballast cleaners, regulators, compactors, switch and track undercutters
Power tools:
Tie renewers, rail saws, tie drills, spike pullers and drivers, rail bolters, drills, grinders

Pacific Press

Eugene W. Pearson
President
Main office:
421 Pendleton Way
Oakland, CA 94621
Tel (415) 635-7900
Offices:
Mt. Carmel, IL; Oakland, CA
Plant:
Mount Carmel, IL

Hydraulic
–press brakes,
–shears,
–straightside presses,
–pressformers,
–OBS, OBL presses
Dies
Automatic gauging equipment
Special hydraulic equipment
Hydraulic control valves
Northrup stretch-form equipment

Mechanical

Jean-Marc Eloy
General Manager
Main office:
227 St. Maurice Street
Trois-Rivières, Que.
G9A 3N8
Tel. (819) 378-4801
Offices:
Ville d'Anjou, Que.; Vancouver, B.C.
Plant:
Trois-Rivières, Que.

Pulp and paper machinery
Steel and rolling mill equipment
Bulk handling equipment
Cranes and hoisting machinery
Gear drives
Special purpose machinery
Custom fabrication and plate work
Offshore drill rig platform equipment

Eastern Structural

Norman Dickinson
General Manager
Main office:
100 Disco Road
Rexdale, Ont.
M9W 1M1
Tel. (416) 675-6400
Offices and plants:
Rexdale, Toronto, Ont.

Western Bridge

Geoffrey Lindup
General Manager
Main office:
145 West First Avenue
Vancouver, B.C.
V5Y 1A2
Tel. (604) 874-2311
Offices:
Edmonton, Alta.;
Vancouver, B.C.
Plant:
Vancouver, B.C.

Star Iron

Gunther F. Hoffmann
General Manager
Main office:
326 Alexander Avenue
Tacoma, WA 98421
Tel. (206) 572-2811
Office and plant:
Tacoma, WA

Structural steel fabrication and erection for buildings and bridges
Construction services
Steel joists
Fabrication and erection of water and vapor conservation tanks
Fabrication, erection and repairs of A.S.M.E. vessels
Microwave structures
Transmission poles and towers
Hydraulic gates
Bulk loading terminal equipment
Conveyor systems
Shipping containers
Warehouse steel
Galvanizing
Electrical bus duct
Cranes:
– container
– gantry
– Kingpost
– portal
– specialty
Crane service, repair and refurbishment

Plastics

Jacques P. Robert
General Manager
Main office:
The Port of Montreal Building
1st Floor, Wing 3
Cité du Havre
Montreal, Que. H3C 3R5
Tel. (514) 861-7221
Offices:
Montreal, Que.; Rexdale, Ont.; Saint John, N.B., Calgary, Alta.
Plants:
Berthierville, Montreal, St. Jacques, Que.; Rexdale, Ont.; Saint John, N.B.

Plastic pipe and fittings
Water—polyethylene
Waste—drain, waste and vent, sewers
Electrical— underground duct rigid conduit
Farm drainage— corrugated pipe
Custom moulding

Canrep

André Thompson
General Manager
Main office:
3745 St. James Street W.
Montreal, Que. H4C 1H4
Tel. (514) 933-6741
Offices:
New Glasgow, Halifax, N.S.; Moncton, N.B.; Montreal, Chicoutimi, Que.; Toronto, Hamilton, Sault Ste. Marie, Ont.; Winnipeg, Man.; Edmonton, Calgary, Alta.; Vancouver, B.C.
Warehouses:
New Glasgow, Halifax, N.S.; Montreal, Chicoutimi, Que.; Toronto, Hamilton, Ont.; Winnipeg, Man.; Edmonton, Alta.; Vancouver, B.C.

Portable tools and accessories
Maintenance, repair and operating equipment and supplies
Material handling – hoisting and jacking equipment, crane accessories, lift trucks
Hydraulic and pneumatic components and systems
Filtration products
Insulation products
Instrumentation and electronic products
Vibration absorbers
Air moving equipment
Rail, transit, and aviation products
Mining equipment
Paper mill products


FRANK H. SHERMAN


HOWARD J. LANG


CLIFFORD S. MALONE

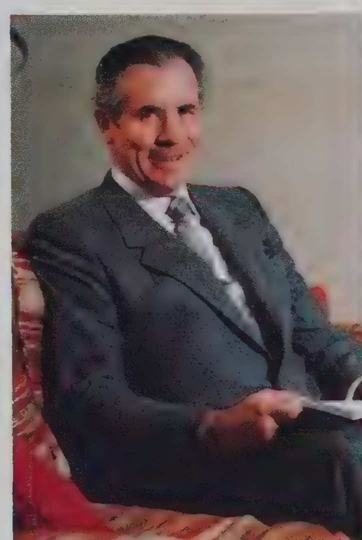

WILLIAM S. CULLENS

JAMES T. BLACK

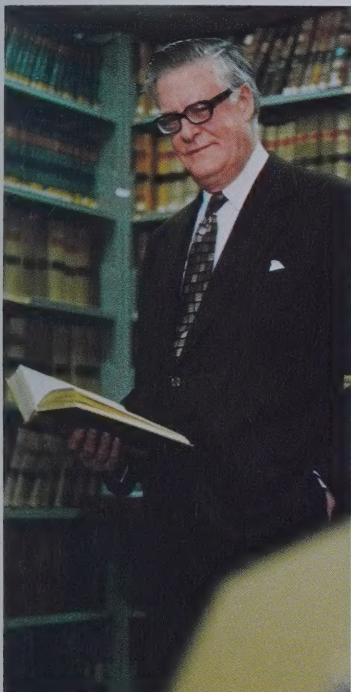

PAUL L. PARÉ


WILLIAM A. DIMMA


PIERRE CÔTÉ

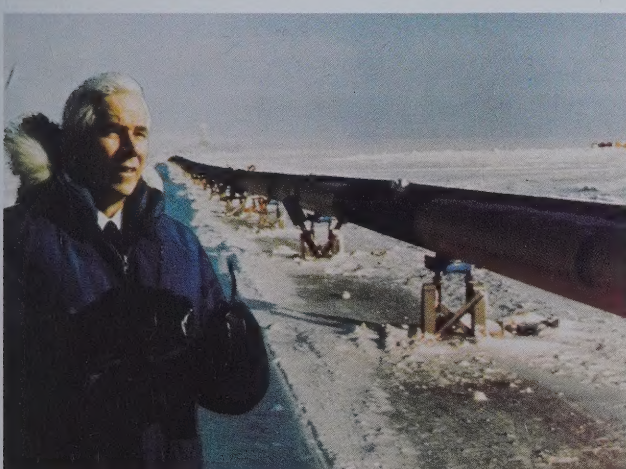

GEORGE L. O'LEARY


WILLIAM J. BENNETT

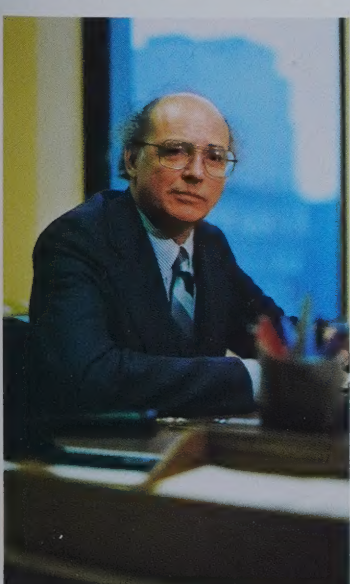


JOHN G. KIRKPATRICK, Q.C.

DONALD A. CARLSON



JOHN D. HOULDING



CHARLES PERRAULT

THOMAS M. GALT

William J. Bennett
Montreal, Quebec
Consultant,
Iron Ore Company of Canada

James T. Black
Toronto, Ontario
President and Chief Executive Officer,
The Molson Companies Limited

Donald A. Carlson
Edmonton, Alberta
Chairman of the Board,
A.V. Carlson Construction Corp. Ltd.

Pierre Côté
Quebec City, Quebec
Chairman of the Board,
Celanese Canada Inc.

William S. Cullens
Toronto, Ontario
President and
Chief Operating Officer,
Canron Inc.

William A. Dimma
Toronto, Ontario
President,
A.E. LePage Limited

Thomas M. Galt
Toronto, Ontario
Chairman and
Chief Executive Officer,
Sun Life Assurance Company of Canada

John D. Houlding
Toronto, Ontario
President and
Chief Executive Officer,
Polar Gas Project

John G. Kirkpatrick, Q.C.
Montreal, Quebec
Partner, Ogilvy, Renault

Howard J. Lang
Toronto, Ontario
Corporate Director, formerly
Chairman of the Board,
Canron Inc.

Clifford S. Malone
Toronto, Ontario
Chairman of the Board
and Chief Executive Officer,
Canron Inc.

George L. O'Leary
Vancouver, British Columbia
Chairman, President and
Chief Executive Officer,
Scott Paper Limited

Paul L. Paré
Montreal, Quebec
Chairman and
Chief Executive Officer,
Imasco Limited

Charles Perrault
Montreal, Quebec
President,
Perconsult Ltd.

Frank H. Sherman
Hamilton, Ontario
President and
Chief Executive Officer,
Dofasco Inc.

Honorary Directors
Maxwell W. Mackenzie
Alan D. McCall

Executive Committee
P. Côté, J.D. Houlding,
J.G. Kirkpatrick, H.J. Lang,
C.S. Malone, P.L.Paré

Audit Committee
W.J. Bennett, J.T. Black,
J.G. Kirkpatrick, C. Perrault,
F.H. Sherman

Management Resources and Compensation Committee
W.J. Bennett, T.M. Galt,
J.G. Kirkpatrick, H.J. Lang,
C.S. Malone, P.L.Paré

Nominating Committee
J.T. Black, T.M. Galt,
J.D. Houlding, H.J. Lang,
C.S. Malone

Clifford S. Malone
Chairman of the Board and Chief Executive Officer

William S. Cullens
President and Chief Operating Officer

William Niles
Executive Vice-President, Finance

Ragnar Blomqwist
Group Vice-President

Fred A. Collier
Vice-President, Personnel and Industrial Relations

Bruce E. Jackson
Group Vice-President

Roger J. Short
Vice-President Planning and Corporate Development

Pieter de Josselin de Jong
Treasurer

William C. Hamilton
Assistant Vice-President, Management Information Resources

Gerald Lefebvre
Secretary

Carol Towner
Corporate Controller

John C. Dorsey
Assistant Secretary

William D. Moncur
Assistant Secretary


WILLIAM NILES


RAGNAR BLOMQWIST


BRUCE E. JACKSON


FRED A. COLLIER


ROGER J. SHORT


PIETER DE JOSSELIN DE JONG


WILLIAM C. HAMILTON


GERALD LEFEBVRE


CAROL TOWNER

Executive office:
1 First Canadian Place
Suite 6300
Toronto, Ontario M5X 1A4
Telephone (416)364-6600

Stock listings:
Montreal, Toronto and Vancouver
Stock Exchanges

Transfer agent and Registrar:
Montreal Trust Company, Montreal,
Toronto and Vancouver

Annual meeting:
The sixty-sixth annual meeting of shareholders will be held in the Territories Room, Royal York Hotel, Toronto, Ontario, on Wednesday, April 28, 1982, at 11.00 a.m.

Si vous désirez recevoir ce rapport annuel en français, prière d'en aviser le secrétaire de Canron Inc.
1 First Canadian Place
Suite 6300
Toronto, Ontario M5X 1A4

CANRON INC.